

Agency Legislative Budget

The following table summarizes the total legislative budget for the agency by year, type of expenditure, and source of funding.

Agency Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	47.00	(2.34)	1.00	45.66	(2.34)	1.00	45.66	45.66
Personal Services	2,091,891	134,580	45,554	2,272,025	135,005	45,429	2,272,325	4,544,350
Operating Expenses	2,253,689	851,113	220,000	3,324,802	808,807	20,000	3,082,496	6,407,298
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	15,130,854	3,983,586	559,446	19,673,886	2,703,068	559,571	18,393,493	38,067,379
Benefits & Claims	210,496	264,504	0	475,000	264,504	0	475,000	950,000
Total Costs	\$19,686,930	\$5,233,783	\$825,000	\$25,745,713	\$3,911,384	\$625,000	\$24,223,314	\$49,969,027
General Fund	1,565,311	1,860,216	625,000	4,050,527	1,859,598	625,000	4,049,909	8,100,436
State/Other Special	1,622,888	1,774,627	0	3,397,515	220,921	0	1,843,809	5,241,324
Federal Special	16,498,731	1,598,940	200,000	18,297,671	1,830,865	0	18,329,596	36,627,267
Total Funds	\$19,686,930	\$5,233,783	\$825,000	\$25,745,713	\$3,911,384	\$625,000	\$24,223,314	\$49,969,027

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Legislative Budget Analysis, C-179

Executive Budget Comparison

The following table compares the legislative budget for the 2007 biennium to the budget requested by the Governor, by type of expenditure and source of funding.

Executive Budget Comparison								
Budget Item	Base Budget Fiscal 2004	Executive Budget Fiscal 2006	Legislative Budget Fiscal 2006	Leg – Exec. Difference Fiscal 2006	Executive Budget Fiscal 2007	Legislative Budget Fiscal 2007	Leg – Exec. Difference Fiscal 2007	Biennium Difference Fiscal 06-07
FTE	47.00	46.66	45.66	(1.00)	46.66	45.66	(1.00)	
Personal Services	2,091,891	2,317,579	2,272,025	(45,554)	2,317,754	2,272,325	(45,429)	(90,983)
Operating Expenses	2,253,689	3,274,802	3,324,802	50,000	3,232,496	3,082,496	(150,000)	(100,000)
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	15,130,854	21,455,215	19,673,886	(1,781,329)	20,377,064	18,393,493	(1,983,571)	(3,764,900)
Benefits & Claims	210,496	475,000	475,000	0	475,000	475,000	0	0
Total Costs	\$19,686,930	\$27,522,596	\$25,745,713	(\$1,776,883)	\$26,402,314	\$24,223,314	(\$2,179,000)	(\$3,955,883)
General Fund	1,565,311	4,625,527	4,050,527	(575,000)	4,624,909	4,049,909	(575,000)	(1,150,000)
State/Other Special	1,622,888	4,799,398	3,397,515	(1,401,883)	3,447,809	1,843,809	(1,604,000)	(3,005,883)
Federal Special	16,498,731	18,097,671	18,297,671	200,000	18,329,596	18,329,596	0	200,000
Total Funds	\$19,686,930	\$27,522,596	\$25,745,713	(\$1,776,883)	\$26,402,314	\$24,223,314	(\$2,179,000)	(\$3,955,883)

The legislative budget is \$3.9 million or 15.0 percent less than the executive budget proposal, with general fund reduced by \$1.1 million, state special revenue lower by \$3.0 million, and federal special revenue higher by \$200,000 over the biennium. The differences between the legislative and executive budget are primarily due to the following:

The reduction in general fund of \$1.1 million is the culmination of several amendments that reduced funding for the Worker-Training program by \$1.2 million and the Made-in-Montana program by \$200,000, and increased the Main Street program of \$250,000, contingent upon passage and approval of HB 481.

State special revenue reductions of \$3.0 million are due to \$34,883 in reductions to the Coal Board from the coal severance tax shared account, and the legislature did not approve the executive proposal for the creation of the new Big Sky Economic Development Trust fund created from the coal tax trust fund for economic development In Montana. The executive proposal is contingent upon the passage of HB 249 and establishes a statutory appropriation of state special revenue over the biennium of \$2.9 million, making the requested HB 2 appropriation unnecessary.

Federal special revenue is increased by \$200,000 for small business innovation research grants for information sharing.

Agency Highlights

Department of Commerce Major Budget Highlights	
♦	Total funds increase by \$10.6 million for the biennium
♦	General fund increases of \$4.9 million are due primarily to: <ul style="list-style-type: none"> • Transfer of the worker training program from the Governor's Office of Economic Opportunity of (\$2.8 million) • Restoration of the Made in Montana program (\$0.8 million) • Approval of the Indian Country Economic Development (\$1.0 million)
♦	State special revenue increases are primarily due to: <ul style="list-style-type: none"> • Appropriated increases in Coal Board Grants of \$892,221 • Increases in national advertising of \$292,000 each year
♦	Federal special revenue increases are primarily due to: <ul style="list-style-type: none"> • Approved increases in Community Development Block Grants of \$3.3 million • An appropriation of \$200,000 over the biennium for small business grants for information sharing

Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Total Agency Funding 2007 Biennium Legislative Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
51 Business Resources Division	\$ 7,660,436	\$ 462,219	\$ 7,796,330	\$ 15,918,985	31.86%
52 Montana Promotion Division	-	1,519,386	-	1,519,386	3.04%
60 Community Development Division	440,000	3,259,719	15,864,837	19,564,556	39.15%
74 Housing Division	-	-	12,016,100	12,016,100	24.05%
81 Director/Management Services	-	-	950,000	950,000	1.90%
Grand Total	<u>\$ 8,100,436</u>	<u>\$ 5,241,324</u>	<u>\$ 36,627,267</u>	<u>\$ 49,969,027</u>	<u>100.00%</u>

Program Legislative Budget

The following table summarizes the legislative budget proposal for the program by year, type of expenditure, and source of funding.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	26.50	(0.34)	1.00	27.16	(0.34)	1.00	27.16	27.16
Personal Services	1,126,589	189,332	45,554	1,361,475	189,775	45,429	1,361,793	2,723,268
Operating Expenses	1,115,614	493,380	220,000	1,828,994	484,998	20,000	1,620,612	3,449,606
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	2,856,896	1,456,651	434,446	4,747,993	1,456,651	434,571	4,748,118	9,496,111
Total Costs	\$5,099,099	\$2,139,363	\$700,000	\$7,938,462	\$2,131,424	\$500,000	\$7,730,523	\$15,668,985
General Fund	1,363,945	1,841,582	500,000	3,705,527	1,840,964	500,000	3,704,909	7,410,436
State/Other Special	182,270	48,919	0	231,189	48,760	0	231,030	462,219
Federal Special	3,552,884	248,862	200,000	4,001,746	241,700	0	3,794,584	7,796,330
Total Funds	\$5,099,099	\$2,139,363	\$700,000	\$7,938,462	\$2,131,424	\$500,000	\$7,730,523	\$15,668,985

Page Reference

Legislative Budget Analysis, C-181

Funding

The Business Resources Division is funded by a combination of 46 percent general fund, 3 percent state special revenue funds, and 51 percent federal special revenue.

General fund supports the following programs:

- Census and Economic Information Center (CEIC)
- The Regional Development Bureau
- A portion of trade and international relations activities
- State match on federal funds for the administrative costs of the community development block grants and Small Business Development Centers
- The Made in Montana Program
- Worker Training Program
- Indian Country Economic Development

State special revenue funds the following:

- Administrative expenses of the micro-business loan program through the interest from loans to micro-business development corporations made from the permanent coal tax trust
- A portion of trade and international relations activities through conference fees and the sale of trade directories, and a grant from the Growth Through Agriculture program of \$90,000 each year
- A portion of Small Business Development Centers through private industry partnering

Federal funds support most expenditures of the Small Business Development Centers and community development block grants.

Trade and international relations activities also receive funding from the Montana Promotion Division allocation of lodging facility use tax, amounting to approximately \$100,000 annually. Since lodging facility use tax revenues are statutorily appropriated, this amount does not require legislative appropriation in HB 2 and as such does not appear in the funding tables.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget adopted by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				310,453					310,600
Vacancy Savings				(57,483)					(57,487)
Inflation/Deflation				(707)					(690)
Fixed Costs				(12,719)					(22,708)
Total Statewide Present Law Adjustments				\$239,544					\$229,715
DP 111 - New Worker Training Program-OTO									
2.00	1,400,000		0	0	1,400,000	2.00	1,400,000	0	0
DP 444 - Restore the Made in Montana Program									
1.00	300,000		0	0	300,000	1.00	300,000	0	0
DP 555 - Made in Montana (Restricted/OTO)									
0.00	100,000		0	0	100,000	0.00	100,000	0	0
DP 5101 - BRD FTE Reallocation HB0002									
(3.00)	(150,459)		0	0	(150,459)	(3.00)	(150,043)	0	0
DP 5104 - BRD Federal Grants Adjustment HB0002									
0.00	0		0	156,651	156,651	0.00	0	0	156,651
DP 5111 - BRD Administrative Costs Adjustments HB0002									
0.00	62,611	45,000		0	107,611	0.00	64,076	45,000	0
DP 5126 - BRD Statewide FTE Reduction HB0002									
(0.34)	(13,984)		0	0	(13,984)	(0.34)	(13,975)	0	0
Total Other Present Law Adjustments									
(0.34)	\$1,698,168	\$45,000	\$156,651	\$1,899,819	(0.34)	\$1,700,058	\$45,000	\$156,651	\$1,901,709
Grand Total All Present Law Adjustments				\$2,139,363					\$2,131,424

DP 111 - New Worker Training Program-OTO - The legislature approved the transfer of the Worker Training Program from the Governor's Office of Economic Opportunity to the Department of Commerce. The Worker Training Program was enacted under HB 564 and passed by the 2003 Legislature. The legislature eliminated the use of the INTERCAP loan program and provided funding through a direct general fund appropriation.

DP 444 - Enhance the Made in Montana Program - The legislature continued the Made in Montana program in the 2007 biennium by adding 1.0 FTE and \$600,000 of general fund.

DP 555 - Made in Montana (Restricted/OTO) - The legislature moved \$200,000 of general fund appropriation from the Worker-Training program to the Made in Montana program to enhance and expand the program.

DP 5101 - BRD FTE Reallocation HB0002 - In the 2003 Legislative session, \$150,000 in HB 2 general fund each year was removed from the Business Resources Division in order to achieve the budget reductions made by the legislature by transferring funding for three positions to a statutory appropriation. Since these positions were still in the base, they were funded through present law adjustments in the 2007 biennium. The legislature eliminated these positions from the adjusted base. The net general fund impact over the 2007 biennium is zero.

DP 5104 - BRD Federal Grants Adjustment HB0002 - The legislature approved federal special revenue authority for Community Development Block Grant Program (CDBG) increases. CDBG economic development funds are projected to increase during the 2007 biennium to an estimated \$2.5 million per year.

DP 5111 - BRD Administrative Costs Adjustments HB0002 - The legislature approved an increase in general fund and state special revenue for the following:

- Carry forward of base year expenditures for overtime of \$2,794 per year
- Restoration of per diem of \$2,457 per year
- Increases in consulting and professional services of \$45,000 per year for the following: 1) Made-In-Montana Trade Show; 2) Women in Business conference; and 3) Micro-Business Development Corporation training
- Increase in travel for the Economic Development Advisory Council of \$3,803 per year
- Increase in building rent of \$2,070 in FY 2006 and \$4,067 in FY 2007
- Increased expenditures for agency indirect charges of \$51,000 per year

DP 5126 - BRD Statewide FTE Reduction HB0002 - The legislature approved a reduction of general fund each year to eliminate 0.34 FTE from the division to make permanent a personal services reduction made by the 2003 legislature.

New Proposals

New Proposals										
Program	FTE	Fiscal 2006				Fiscal 2007				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1 - BRD Federal Grant Increases SBIR-OTO										
51	0.00	0	0	0	200,000	200,000	0.00	0	0	0
DP 223 - Indian Country Economic Development-OTO										
51	1.00	500,000	0	0	500,000	500,000	1.00	500,000	0	0
Total	1.00	\$500,000	\$0	\$200,000	\$700,000	\$700,000	1.00	\$500,000	\$0	\$500,000

DP 1 - BRD Federal Grant Increases SBIR-OTO - The legislature approved additional federal special revenue for small business innovation research grants for information sharing.

DP 223 - Indian Country Economic Development-OTO - The legislature approved a new program that promotes economic development opportunities on the seven different Indian reservations located throughout Montana. Funding would be provided by a general fund appropriation of \$500,000 each year of the biennium

Language

The legislature approved the following language for inclusion in HB2:

"The department shall present a written report every 6 months beginning December 1, 2005, to the economic affairs interim committee on the status of grants and program implementation of the worker training program and the Indian country economic development program."

"If House Bill No. 249 is not passed and approved, the Economic Indian Development Program is decreased by \$25,000 in general fund money in fiscal year 2006 and fiscal year 2007 and the Business Resources Division is increased by \$25,000 in general fund money in fiscal year 2006 and fiscal year 2007 and restricted to eastern plains RC&D community projects."

"Main Street Program is contingent upon passage and approval of House Bill No. 481."

Program Legislative Budget

The following table summarizes the legislative budget proposal for the program by year, type of expenditure, and source of funding.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	476,286	293,100	0	769,386	273,714	0	750,000	1,519,386
Total Costs	\$476,286	\$293,100	\$0	\$769,386	\$273,714	\$0	\$750,000	\$1,519,386
State/Other Special	476,286	293,100	0	769,386	273,714	0	750,000	1,519,386
Total Funds	\$476,286	\$293,100	\$0	\$769,386	\$273,714	\$0	\$750,000	\$1,519,386

Page Reference

Legislative Budget Analysis, C-185

Funding

The Montana Promotion Division is funded primarily by state special revenues, derived from 67.5 percent of the 4 percent Montana Lodging Facility Use Tax "remaining after statutory deductions". The portion of the bed tax appropriated in HB 2 and shown in the table above funds numerous private organizations throughout Montana that produce and distribute cooperative advertising and joint promotional activities. This public/private partnership is funded cooperatively with the state and typically receives funding from private partners to develop and distribute targeted marketing efforts. Legislative audit costs are also funded in HB 2.

The remainder of the tax not allocated to the Department of Commerce goes to the Montana Historical Society, the University of Montana for allocation to the Institute of Tourism and Recreation Research, the Department of Revenue to cover the cost of collections, and to the Department of Fish, Wildlife, and Parks. The funds distributed to the Department of Commerce are statutorily appropriated by 15-65-121, MCA, rather than in HB 2.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget adopted by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments											
-----Fiscal 2006-----						-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Fixed Costs					1,045					(18,341)	
Total Statewide Present Law Adjustments					\$1,045					(\$18,341)	
DP 5212 - MPD Private Funds & Audit Adjustments HB0002											
	0.00		0	292,055	0	292,055	0.00	0	292,055	0	292,055
Total Other Present Law Adjustments	0.00		\$0	\$292,055	\$0	\$292,055	0.00	\$0	\$292,055	\$0	\$292,055
Grand Total All Present Law Adjustments					\$293,100					\$273,714	

DP 5212 - MPD Private Funds & Audit Adjustments HB0002 - The legislature approved an increase in state special revenue authority to increase national advertising by \$292,055 each year.

Program Legislative Budget

The following table summarizes the legislative budget proposal for the program by year, type of expenditure, and source of funding.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	13.00	0.00	0.00	13.00	0.00	0.00	13.00	13.00
Personal Services	625,775	30,057	0	655,832	30,600	0	656,375	1,312,207
Operating Expenses	409,881	126,169	0	536,050	118,554	0	528,435	1,064,485
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	6,587,183	2,772,846	0	9,360,029	1,240,652	0	7,827,835	17,187,864
Total Costs	\$7,622,839	\$2,929,072	\$0	\$10,551,911	\$1,389,806	\$0	\$9,012,645	\$19,564,556
General Fund	201,366	18,634	0	220,000	18,634	0	220,000	440,000
State/Other Special	964,332	1,432,608	0	2,396,940	(101,553)	0	862,779	3,259,719
Federal Special	6,457,141	1,477,830	0	7,934,971	1,472,725	0	7,929,866	15,864,837
Total Funds	\$7,622,839	\$2,929,072	\$0	\$10,551,911	\$1,389,806	\$0	\$9,012,645	\$19,564,556

Page Reference

Legislative Budget Analysis, C-189

Funding

The four programs within the Community Development Division are funded as follows:

- Interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust fund, fund the Treasure State Endowment Program.
- The Coal Board is funded exclusively from a share of the 7.75 percent Coal Severance Tax shared account. The shared account funds the Coal Board Local Impact Grants, pass-through funding for conservation districts, a portion of the Growth Through Agriculture program, and state library services through the State Library Commission.
- The CDBG program is primarily funded with federal block grant funds, allocated through the U.S. Department of Housing and Urban Development (HUD). The general fund provides a required match for a portion of the administrative costs of the program equal to two percent of the annual CDBG allocation
- The Hard-Rock Mining Impact Board is funded by a 2.5 percent allocation of the Metalliferous Mines License Tax (MMLT)

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget adopted by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				54,778						55,346
Vacancy Savings				(27,221)						(27,246)
Inflation/Deflation				(2,215)						(2,198)
Fixed Costs				(13,255)						(21,891)
Total Statewide Present Law Adjustments				\$12,087						\$4,011
DP 6003 - CD Grants Adjustment HB0002	0.00	0	1,247,085	1,500,000	2,747,085	0.00	0	(319,992)	1,500,000	1,180,008
DP 6004 - Coal Board Grant Adjustments	0.00	0	(34,883)	0	(34,883)	0.00	0	0	0	0
DP 6013 - CD Administrative Costs Adjustments HB0002	0.00	0	123,606	20,533	144,139	0.00	0	124,130	21,013	145,143
DP 6060 - CD Grants Hard Rock Adjustments HB0002	0.00	0	60,644	0	60,644	0.00	0	60,644	0	60,644
Total Other Present Law Adjustments										
	0.00	\$0	\$1,396,452	\$1,520,533	\$2,916,985	0.00	\$0	(\$135,218)	\$1,521,013	\$1,385,795
Grand Total All Present Law Adjustments				\$2,929,072						\$1,389,806

DP 6003 - CD Grants Adjustment HB0002 - The legislature approved additional federal special revenue authority from the Community Development Block Grants of \$1.5 million each year for new construction grants. Also, the legislature approved a biennial appropriation for the Coal Board for grants to local coal communities of \$927,093. Funding for the Coal Board grants comes from the coal severance tax shared account.

DP 6004 - Coal Board Grant Adjustments - The legislature reduced available grants to the Coal Board by \$34,883 over the biennium. Funding for the Coal Board grants comes from the coal severance tax shared account.

DP 6013 - CD Administrative Costs Adjustments HB0002 - The legislature approved an increase in state special and federal special revenue authority for administrative cost increases for the following items:

- o Restoration of per diem of \$2,500 per year
- o Increased consultants and professional services of \$5,000 per year to retain professional architects and engineers
- o Increased travel of \$5,250 for attendance in HUD training for CDBG staff in Washington D.C. and HUD's regional headquarters in Denver, Colorado
- o Increased rent of \$2,451 in FY 2006 and \$3,709 in FY 2007
- o Increased expenditures for agency indirect charges of \$100,000 per year

DP 6060 - CD Grants Hard Rock Adjustments HB0002 - The legislature approved additional state special revenue authority to transfer all money segregated by the county in the hard rock mining impact trust account in excess of \$100,000 to the county for which the funds have been held in deposit, as required in 90-6-331, MCA.

Page Reference

Legislative Budget Analysis, C-192

Proprietary Rates**Proprietary Program Description**

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers. Cost savings are shared with consumers in the form of lower fees.

The Facility Finance Authority is funded entirely by proprietary funds.

There has not been any significant program, service, or customer base change since the last legislative session.

Proprietary Revenues and Expenses**Revenue Description:**

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The authority has gradually reduced its application and annual administrative fee assessments contingent upon its business volume. Customer volume is assumed to be at the current level throughout the 2007 biennium.

Expense Description:

The major cost drivers within the Facilities Finance Authority are personal services, operating expenses, grants, and expenditures related to the periodic replacement of computer equipment.

Non-typical and one-time-only expenses, if any, are subtracted from any proposed budgets. Personal services expenditures fund 2.00 FTE and board member per diem.

Proprietary Rate Explanation

The Facilities Finance Authority is funded by an enterprise fund and as such the legislature does not set the rates for its operations. Authority customers are outside of state government. The fee structure that is proposed does not materially vary from that proposed in the last session.

Program Legislative Budget

The following table summarizes the legislative budget proposal for the program by year, type of expenditure, and source of funding.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	5.50	0.00	0.00	5.50	0.00	0.00	5.50	5.50
Personal Services	254,825	(107)	0	254,718	(668)	0	254,157	508,875
Operating Expenses	156,973	33,399	0	190,372	26,476	0	183,449	373,821
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	5,686,775	(245,911)	0	5,440,864	5,765	0	5,692,540	11,133,404
Total Costs	\$6,098,573	(\$212,619)	\$0	\$5,885,954	\$31,573	\$0	\$6,130,146	\$12,016,100
Federal Special	6,098,573	(212,619)	0	5,885,954	31,573	0	6,130,146	12,016,100
Total Funds	\$6,098,573	(\$212,619)	\$0	\$5,885,954	\$31,573	\$0	\$6,130,146	\$12,016,100

Page Reference

Legislative Budget Analysis, C-194

Funding

Most expenses of this division are funded through non-budgeted enterprise accounts, including: the Board of Housing Financial Program, Housing Trust Fund, Affordable Housing Revolving Loan, and Revolving Loan Fund.

HB 2 appropriations support the HOME program by an annual categorical federal grant from HUD. Grant funds are distributed using a competitive process to successful local governments and Community Housing Development Organizations with an allowed amount being held back at the state level to administer the program.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget adopted by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					9,913					9,327
Vacancy Savings					(10,590)					(10,565)
Inflation/Deflation					(169)					(162)
Fixed Costs					(1,133)					(1,403)
Total Statewide Present Law Adjustments					(\$1,979)					(\$2,803)
DP 7405 - HD HOME Federal Grants Adjustment HB0002										
	0.00	0	0	(245,911)	(245,911)	0.00	0	0	5,765	5,765
DP 7414 - HD Administrative Costs Adjustments HB0002										
	0.00	0	0	35,271	35,271	0.00	0	0	28,611	28,611
Total Other Present Law Adjustments										
	0.00	\$0	\$0	(\$210,640)	(\$210,640)	0.00	\$0	\$0	\$34,376	\$34,376
Grand Total All Present Law Adjustments					(\$212,619)					\$31,573

DP 7405 - HD HOME Federal Grants Adjustment HB0002 - The legislature approved an adjustment in home grants to correct an expenditure coding error in the base-year and adjust for expected HUD grants. The effect of this correction in FY 2006 is a decrease in grants to local agencies of \$71,179, construction grants of \$142,284, and project administration grants of \$32,448. In FY 2007 the net result of this adjustment is a decrease in grants to local agencies of \$71,179, an increase in construction grants of \$109,392, and a decrease in project administration grants of \$32,448.

DP 7414 - HD Administrative Costs Adjustments HB0002 - The legislature approved additional federal special revenue authority from the Home Grants for the following adjustments:

- Restore base year expenditures for overtime of \$570 a year
- Increase minor equipment computer hardware by \$8,800 in FY 2006 to adjust to a 4-year equipment replacement schedule
- Increase travel costs for attendance in the Application Oriented Design (AOD) software conference of \$1,996 per year
- Increase rent by 2 percent a year due to annual contract obligations of \$920 in FY 2006 and \$1,394 in FY 2007
- Increase agency indirect charges of \$7,000 a year to support the services provided by the Director's Office/Management Services Division
- Add maintenance contracts and yearly licenses of \$18,700 in FY 2006 and \$20,570 in FY 2007 for new AOD software purchased in FY 2004
- Remove moving expenses from the base budget of \$3,000 a year

Proprietary Rates

Proprietary Program Description

The Montana Housing Act of 1975 created the Montana Board of Housing. The board is an agency of the state and operates within the Department of Commerce for administrative purposes. Under the Housing Act the board does not receive appropriations from the state's general fund and is completely self-supporting. Substantially all of the funds for the board's operations and programs are provided by the private sector through the sale of tax-exempt bonds. The powers of the board are vested in a seven-member board, appointed by the Governor, subject to the confirmation of the State Senate. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates board-housing programs. These programs include the Single Family Program, Recycled Single Family Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund and the Reverse Annuity Mortgage (RAM) Program.

The Board of Housing is funded by four enterprise funds (accounting entities 06030, 06031, 06078, and 06079) with revenues derived from an administrative charge applied to projects and mortgages financed. As such, the legislature does not approve rates for this program. There are no direct appropriations provided in HB 2.

There has not been any significant program, service, or customer base change since the last session.

Proprietary Revenues and Expenses

Revenue Description

- The Single Family program earns the bulk of its income from the spread between the interest yield on the Single Family Mortgage loans and the yield on the bonds (1.5 percent on pre-1980 programs and 1.125 percent on post-1980 programs). The board also charges a reservation fee of 0.5 percent of the loan amount reserved. Extension fees of 0.25 percent of the loan amount and late fees of 0.5 percent of the loan amount are also occasionally charged.
- The Multifamily program can earn a 1.5 percent spread between the mortgage yield and the bond yield. Under the Multifamily program, the board can also charge a reservation fee on new loans of up to 1.0 percent of the principal balance.

- The board charges 4.5 percent of the amount of tax credit reserved for Low Income Housing Tax Credits, and also charges \$25.00 per unit for compliance fees. Tax credit fees are charged to cover the operating expenses of the program. The board charges an interest rate from 2.0 to 6.0 percent on Housing Revolving Loan Account loans.
- The Reverse Annuity Mortgage program allows elderly homeowners to receive monthly payments for 10 years to assist them with their living expenses. The loans accrue interest at 5.0 percent.

Expense Description

Operations for the next biennium are anticipated to be approximately \$5.6 million for FY 2006 and \$6 million for FY 2007. The operations of the Board include purchasing mortgage loans, receiving repayments and prepayments, investing funds, issuing and redeeming bonds. During fiscal year 2004, the Board purchased \$153,813,245 in mortgages and received \$180 million in mortgage repayments, prepayments and interest. The Board paid interest and principal on bonds of \$193,454,965 and issued new bond proceeds in the amount of \$161,800,000. This was done with a staff of 20 FTE.

Working Capital Discussion

Each month the board receives funds from the financial institutions that service the board's single family and multifamily loans. The funds include the amount of principal, interest, less servicing fees (0.375 percent, 0.125 percent and 0.10 percent of the principal balance) that are due on the board's loans. The board's trustees collect the money. Twice monthly, the board purchases loans from new bond proceeds, prepayments or other revenues.

The board receives tax credit reservations fees when the tax credits are approved. These fees are deposited with the state treasurer and are used to cover expenses of the program. Reservations fees on the Single Family and Multifamily Programs are deposited with the trustees when the approved loans are reserved. They are deposited in the program acquisition account and are used to originate new mortgages.

Proprietary Rate Explanation

Board of Housing Rate Explanation

The Board recovers its costs from charging application and compliance fees for the Low Income Tax Credit Program and from charging a spread on our loan programs. The Board draws funds for its budget from the amounts available within the Indentures. The amount of the approved budget, less any cash on hand, is withdrawn from the Indenture and is allocated among the various Indentures. Any income the Board earns is used to fund special programs that meet the needs of Montana families that are not being met by our regular programs. These funds are pledged to the bondholders.

Section 8 Housing Rate Explanation

Revenue from both funds are derived from competitively awarded performance based Annual Contribution Contracts with HUD, and both programs are completely self-supporting.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Section 8 programs workload and customer level will remain constant.

The federal government has proposed reductions in the levels of funding for the Housing Choice Vouchers tenant based program. At this time the Department has appealed the proposed reductions. Should the reductions be upheld, Housing Assistance Payments for tenants must be reduced, either by reducing the benefit provided each tenant family, or by removing currently assisted families from the Housing Choice Vouchers Program. Administrative requirements and workload remain unchanged. The U.S. Department of Housing and Urban Development pays the Housing Assistance Bureau on a performance based contract, where administration is paid at the rate of \$45.79 per unit under lease at the beginning of each month, and will provide \$334.88 per unit to cover rent costs for participating tenants. The \$334.88 figure has been appealed, due to declining income of tenant families, reductions in TANF (counted as income on this program), excessive utility rate increases, and increases in the new HUD fair marker rents, which control minimum and

maximum subsidy levels for the program. This shorts rents by about \$21 per month per tenant, around \$920,000 per year.

The administration side of the program does not currently make enough from HUD to fully fund administrative operations, so retained earnings, and interest on them are used to make up the difference between needed revenues and administration expenses for the program. It is anticipated that the retained earnings will continue to fund the program indefinitely, unless there are more negative changes upcoming from HUD. The retained earnings are limited to use for operation of the program by federal code.

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5 year renewable RFP. The department is entering the fifth year and expects HUD to extend the contract into future years, as the department has obtained an outstanding review scoring in most years we have administered the program. Administrative costs are paid as a fixed percent of the HUD fair market rent, currently 2 percent, with a provision for another 1 percent awarded for superior performance, or 1 percent removed for failure to perform. The amounts received are based in 17 different Incentive Based Performance Standards, each of which is evaluated by HUD. Retained earnings are to be used for operations of this program. Funding for rents is paid by HUD, based on actual contracts negotiated between the department and the 107 individual owners of the projects, set up on a procedure dictated by HUD.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Project Based Section 8 program is authorized 7.00 FTE and the Tenant Based Section 8 program is authorized 12.50 FTE; for a total 19.50 FTE.

Page Reference

Legislative Budget Analysis, C-201

Proprietary Rates**Proprietary Program Description**

The Board of Investments invests all state funds in the Unified Investment Program, established under Article VIII, Section 13 of the Montana Constitution. Local governments may invest in the Short-Term Investment Pool. The six investment pools are Retirement Funds Bond Pool, Trust Funds Bond Pool, Short Term Investment Pool, Montana Domestic Stock Pool, Montana International Equity Pool, and Montana Private Equity Pool.

Funding

The Board of Investments is funded with both enterprise and internal service type proprietary funds.

Proprietary Revenues and Expenses**Revenue Description**

Nearly all Bond Program revenues (accounting entity 06014, an enterprise fund) are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270-day fund balance is required to provide adequate funding for the Bond Program between draws. Remaining revenues are received monthly from the boards contract with the Montana Facility Finance Authority.

Nearly all Investment Program revenues (accounting entity 06527, an internal service fund) are generated from charges to each account that the board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60-day working capital reserve.

Expense Description

The major cost drivers within the Board of Investments are personal services, operating expenses, and expenditures related to the periodic replacement of computer equipment. Additionally, over \$2.5 million was disbursed from accounting entity 06014 in FY 2004 via a statutory appropriation for debt service requirements related to the state's bonding activity.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the division's workload and customer levels will remain constant, although investment portfolios will continue to grow in size.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Investments is authorized 34.00 FTE (31.00 funded from accounting entity 06527, and 3.00 funded from accounting entity 06014) and personal services expenditures include board member per diem.

Working Capital Discussion

Revenues for accounting entity 06014 are typically received on an annual basis, so a 270-day fund balance is required to provide adequate funding for the Bond Program between draws.

Revenues for accounting entity 06527 are assessed on a monthly basis; since collections lag by at least one month the board must maintain a nominal working capital reserve to meet ongoing operational expenses.

Fund Equity and Reserved Fund Balance

At the proposed rates, the department projects a fiscal year end 2007 ending unreserved fund balance of approximately \$338,691.

Proprietary Rate Explanation

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level.

Proprietary Significant Present Law

The only present law adjustment for accounting entity 06527 is for administrative costs for overtime, fixed costs, and rent.

**Proprietary New Proposals
New Proposals**

There are no new proposals for accounting entity 06527.

Program Legislative Budget

The following table summarizes the legislative budget proposal for the program by year, type of expenditure, and source of funding.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Leg. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Leg. Budget Fiscal 2007	Total Leg. Budget Fiscal 06-07
FTE	2.00	(2.00)	0.00	0.00	(2.00)	0.00	0.00	0.00
Personal Services	84,702	(84,702)	0	0	(84,702)	0	0	0
Operating Expenses	94,935	(94,935)	0	0	(94,935)	0	0	0
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	0	0	0	0	0	0	0	0
Benefits & Claims	210,496	264,504	0	475,000	264,504	0	475,000	950,000
Total Costs	\$390,133	\$84,867	\$0	\$475,000	\$84,867	\$0	\$475,000	\$950,000
Federal Special	390,133	84,867	0	475,000	84,867	0	475,000	950,000
Total Funds	\$390,133	\$84,867	\$0	\$475,000	\$84,867	\$0	\$475,000	\$950,000

Page Reference

Legislative Budget Analysis, C-206

Funding

The Montana Council on Developmental Disabilities (DDPAC) is entirely funded with federal special revenues. The Director's Office/Management Services Division is funded by an internal service proprietary fund from indirect costs charged to all agency programs.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget adopted by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				21,896					21,599
Vacancy Savings				(4,264)					(4,252)
Total Statewide Present Law Adjustments				\$17,632					\$17,347
DP 8115 - MSD Administrative Costs/DDPAC Realignment HB0002									
(2.00)	0	0	67,235	67,235	(2.00)	0	0	67,520	67,520
Total Other Present Law Adjustments									
(2.00)	\$0	\$0	\$67,235	\$67,235	(2.00)	\$0	\$0	\$67,520	\$67,520
Grand Total All Present Law Adjustments				\$84,867					\$84,867

DP 8115 - MSD Administrative Costs/DDPAC Realignment HB0002 - The legislature reorganized and re-aligned the operating plans for DDPAC along with additional federal special revenue authority for the following adjustments:

- Eliminate 2.00 FTE from the DDPAC program of approximately \$102,000 a year and reclassify these personal services costs into benefits and claims account
- Reclassify all operating costs of \$94,935 into a benefits and claims account
- Increase benefits and claims approximately \$67,000 a year

Proprietary Rates**Proprietary Program Description**

The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.

The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.

Proprietary Revenues and Expenses**Revenue Description:**

The Director's Office/Management Services Division are funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the division's indirect cost plan. Indirect costs are allocated to supported programs based upon federally and legislatively approved indirect cost rates applied to actual personal services expenditures.

The revenue objective of the Director's Office/Management Services Division is to maintain the lowest possible indirect charge to supported divisions, bureaus, and programs, while maintaining a nominal working capital reserve. The department has historically used this methodology in calculating indirect rates because the federal government requires the same methodology to be used when charging indirect costs to federally funded programs.

Expense Description:

The major cost drivers within the Director's Office/Management Services Division are personal services, operating expenses, and expenditures related to the periodic replacement of the agencies computer equipment.

Non-typical and one-time-only expenses are subtracted out of the divisions future cost projections before calculating the indirect rate. The proposed indirect cost rate will fund 16.50 FTE in the 2007 biennium the same number as the 2005 biennium.

Factors that contribute to uncertainty in forecasting expenses involve potential legislative actions, since the cost of providing centralized support services is directly related to the number and complexity of the agencies divisions, bureaus, and programs; and the number of agency staff served. As agency services and programs increase, or decrease management needs to remain aware of divisions staffing requirements and indirect cost rates and make the necessary adjustments when needed.

Working Capital Discussion:

The division's indirect cost rate is calculated by dividing projected annual expenses, plus a nominal working capital reserve, by the projected actual personal services expenses of supported divisions, bureaus, and programs. Federally funded programs are allocated indirect costs via a federally approved indirect cost rate, while state funded programs are allocated indirect costs via a legislatively approved indirect cost rate.

The division's working capital objective is to recover the costs necessary to fund the division's ongoing operations. Since indirect cost collections lag by at least one month the division needs to maintain a nominal 60-day working capital reserve to meet operating costs.

Fund Equity and Reserved Fund Balance:

At the proposed rates, the department projects a fiscal year end 2007 ending unreserved fund balance of \$194,276, or approximately a 60 day working capital reserve.

Proprietary Rate Explanation

The division negotiates an annual rate with HUD. The approved rate is a fixed rate for federally funded programs. This rate is then applied against actual personal services expenditures within the department, not including the Director's Office/ Management Services Division.

The rate negotiated with HUD requires that a carry-forward amount be built into the rate. This carry-forward amount represents the amount the division under-recovered or over-recovered in a given fiscal year. This computation compares what was originally negotiated to what actually occurred. The difference is then carried forward into the following year's rate.

The division's indirect cost rate is determined based on guidelines prescribed by the federal government. Additionally, the division complies with 17-3-111, MCA, which requires agencies to negotiate a rate that would recover indirect costs to the greatest extent possible. In order to comply with this statute, the division has requested a rate that may vary slightly from the rate actually negotiated with HUD. The rate approved by the legislature is considered a cap; therefore, the division cannot negotiate for a rate higher than what has been approved by the legislature. However, the rate negotiated with HUD may be slightly lower.

Proprietary Significant Present Law

The only present law adjustment is for administrative costs; such as overtime, minor computer equipment based upon 4-year replacement schedules, and rent.

Proprietary New Proposals**New Proposals**

There are no new proposals.